

FITCH REVISES OUTLOOK ON FBNH TO POSITIVE; AFFIRMS AT 'B-'

Fitch Ratings-London-27 November 2018: Fitch Ratings has revised the Outlook on the Long-Term Issuer Default Ratings (IDR) of FBN Holdings Plc (FBNH) and its primary operating company, First Bank of Nigeria (FBN) to Positive from Negative and affirmed the IDRs at 'B-'. Fitch has also upgraded the National Long- and Short-Term Ratings of FBNH and FBN to 'BBB(nga)' from 'BB+(nga)' and 'F2(nga)' from 'B(nga)', respectively. A full list of rating actions is at the end of this rating action commentary.

The revision of the Outlooks reflects improving asset quality trends and our expectation that the bank's largest impaired loans will be resolved within the Outlook horizon. It also reflects stronger loan loss allowance coverage of impaired loans, under IFRS 9, with this positive trajectory expected to continue. These factors have also driven the upgrade of FBNH's and FBN's National Ratings, given the improvement in their credit profiles relative to other Nigerian issuers.

KEY RATING DRIVERS

IDRS AND VRs

FBNH's and FBN's IDRs are driven by their standalone credit profiles, as defined by their Viability Ratings (VR). Like all Nigerian banks, the VRs are influenced by the operating environment in Nigeria. The fragile economic recovery restrains banks' growth prospects and asset quality. The VRs also reflect FBN's position as one of the country's largest banks and its resilient franchise, which provides robust revenue generation capacity, a solid funding base and sound liquidity.

The VRs also reflect a high, albeit improving impaired loan ratio and improving loan loss allowance coverage, which leaves capital buffers less vulnerable to unexpected shocks.

The operating environment in Nigerian remains tough, with the country having recently emerged from a recession. Although access to foreign currency has eased, many borrowers retain limited capacity to service obligations and there are few opportunities for banks to grow their loan portfolios.

Asset quality remains a relative weakness compared with other large Nigerian banks, illustrated by a far higher impaired loans (Stage 3 loans under IFRS 9)/gross loans ratio of 19.8% at end-9M18 and lower reserve coverage of impaired loans (69%) than peers. However, both metrics are on a positive trend, which we expect to continue in 2019. Loan impairment charges continue to weigh on profitability.

FBNH's Fitch core capital ratio of 18.6% at end-1H18 has been supported by solid pre-impairment earnings and no dividend distributions. While higher reserve coverage takes pressure off capital, FBN's regulatory total capital adequacy ratio would still fall below the minimum regulatory capital requirements if FBN was to fully provide for its impaired loans. This is not our base case, and the bank's internal capital generation could easily make up the shortfall if needed.

Pre-impairment earnings have been resilient, thanks to the group's strong domestic franchise. FBN is the oldest and second-largest bank in Nigeria, with a market share of 14% of domestic credit at end-2017. The franchise has stood up well in the face of asset quality problems. Fitch believes that profitability will strengthen with improving asset quality.

Franchise strength is further illustrated by the group's solid funding base of low cost retail deposits, driving one of the lowest cost of funding in the sector. Cheap, stable funding is complemented by

strong liquidity. FBN's regulatory liquidity ratio is well above the minimum requirement of 30% at end-9M18, at 43%. Liquidity is provided by a large book of domestic government securities.

FBNH's and FBN's National Ratings reflect their creditworthiness relative to the country's best credit and relative to peers operating in Nigeria.

SUPPORT RATING AND SUPPORT RATING FLOOR

FBN's Support Rating (SR) and Support Rating Floor (SRF) reflect uncertainty over the ability of the authorities to support banks, particularly in foreign currency. In addition, there are no clear messages from the authorities regarding their willingness to support the banking system. The SRF of all Nigerian banks is 'No Floor' and all Support Ratings are '5', which reflects our view is that senior creditors cannot rely on receiving full and timely extraordinary support from the authorities should a bank become non-viable.

FBNH's SR and SRF reflect our view that any support that could come from the authorities to domestic banks is unlikely to extend to the holding company, which does not have material creditors.

SUBORDINATED DEBT

Subordinated debt issued by FBN's Netherlands -incorporated special purpose vehicle FBN Finance B.V. is rated one notch below FBN's VR to reflect loss severity for subordinated creditors. Recoveries on the notes in the event of default are considered to be below average and therefore the Recovery Rating on the notes is 'RR5'.

RATING SENSITIVITIES

IDRS, VRs, NATIONAL RATINGS AND SENIOR DEBT

FBNH's and FBN's IDRs are both sensitive to any change in their VRs. The Outlooks on the IDRs are Positive, reflecting Fitch's base case that asset quality will see a material improvement. This ultimately considers the resolution of the bank's largest NPL, which is around 8% of gross loans and is expected to be resolved during 2019. Should NPLs decline rapidly and loan loss allowance coverage continue to improve, then the VRs and IDRs could be upgraded.

A downgrade would most likely be as a result from a renewed deterioration in asset quality.

FBNH's and FBN's National Ratings are sensitive to a change in their creditworthiness relative to other Nigerian issuers.

SUPPORT RATING AND SUPPORT RATING FLOOR

FBN's SR could be upgraded and the SRF revised upwards if Fitch sees an improvement in the authorities' ability to support in foreign currency, particularly as a systemically important bank. An improvement in the ability to support could be indicated by further accumulation of external reserves and a sustainable exchange rate. An upward revision of the SRF could lead to an upgrade of FBN's Long-Term IDR. As a holding company, we view an upgrade of FBNH's SR and upward revision of the SRF as unlikely.

SUBORDINATED DEBT

The Long-Term Rating on subordinated debt issued by FBN Finance B.V. is sensitive to any change in FBN's Long-Term IDR.

The rating actions are as follows:

FBN Holdings Plc and First Bank of Nigeria Limited

Long-Term IDRs affirmed at 'B-'; Outlooks revised to Positive from Negative

Short-Term IDRs affirmed at 'B'

Viability Ratings affirmed at 'b-'
Support Rating Floors affirmed at 'No Floor'
Support Ratings affirmed at '5'
National Long-Term Ratings upgraded to 'BBB(nga)' from 'BB+(nga)'
National Short-Term Ratings upgraded to 'F2(nga)' from 'B(nga)'

FBN Finance B.V.
Subordinated debt long-term rating affirmed at 'CCC+'/'RR5'

Contact:

Primary Analyst
Andrew Parkinson
Director
+44 203 530 1420
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Tim Slater
Analyst
+44 203 530 1791

Committee Chairperson
Alexander Danilov
Senior Director
+7 495 956 2408

Media Relations: Louisa Williams, London, Tel: 2452, Email: louisa.williams@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

National Scale Ratings Criteria (pub. 18 Jul 2018)

<https://www.fitchratings.com/site/re/10038626>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the

work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.